

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2019

Docket No. ACR2019

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-13 OF CHAIRMAN'S INFORMATION REQUEST NO. 2

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 2, issued on January 10, 2020. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please see Attachment, filed under seal.

RESPONSE:

Please see the response provided under seal as part of the Preface to USPS-FY19-NP33.

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2. Library Reference USPS-FY19-33 states that the total number of suspended post offices at the end of FY 2019 is 401.¹ This number differs from the information provided in the FY 2019 ACR, which states that the total number of suspended post offices at the end of FY 2019 is 366.²
- a. Please provide the total number of post offices suspended at the end of FY 2019. This number should include post offices suspended from FY 2017 through FY 2019.
 - b. Please explain why the number of post offices suspended at the end of FY 2019 differs between the FY 2019 ACR and Library Reference USPS-FY19-33.

RESPONSE:

- a. There was a total of 401 post offices in suspension status at the end of FY 2019.

This number consists of 228 of the 662 post offices suspended at the end of FY 2016, plus another 173 post offices suspended from FY 2017 through FY 2019 (228 + 173 = 401).
- b. The difference of 35 (= 401 – 366) can be explained as follows: the FY 2019 ACR reported 138 additional post offices suspended at the end of FY 2019, instead of reporting an additional 173 post offices. More specifically, footnote 40 on page 61 should have reported that within FY 2019, there were 135 suspensions, of which 41 were reopened, leaving a balance of 94 (instead of

¹ Library Reference USPS-FY19-33, December 27, 2019, Excel file "PostOfficesFY2019.xlsx," tab "Suspension Summary."

² FY 2019 ACR at 61. Of the 662 post offices suspended at the end of FY 2016, there are 228 suspended post offices remaining. *Id.* From FY 2017 through FY 2019, the Postal Service suspended another 138 post offices. *Id.* The sum of these two numbers equals 366 post offices in total suspended at the end of FY 2019.

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reporting that of the 135 suspensions, 76 post offices were reopened, leaving a balance of 59). The reason the FY 2019 ACR reported 76 post offices reopened in FY 2019 is because USPS-FY19-33 reported a total of 76 post offices reopened during FY 2019. However, that total included 35 post offices that were suspended in years prior to FY 2019.

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3. Please identify all factors that caused contribution from the Inbound Letter Post product to decrease from approximately negative \$82 million in Fiscal Year (FY) 2018 to negative \$164 million in FY 2019.³

RESPONSE:

The amounts shown in the question concern only the Inbound Letter Post product in section 1130 of the Mail Classification Schedule (MCS), which does not include the entirety of revenues flows related to Inbound Letter Post. The Postal Service submits that the entirety of Inbound Letter Post (which “includes not only revenue attributable to the Inbound Letter Post product (MCS section 1130), but also Inbound International Registered Mail (part of MCS section 1510.2), the PRIME Express Service Agreement (MCS section 1602.4), the PRIME Tracked Service Agreement (MCS section 1602.6), Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (MCS section 1602.3), and the PRIME Registered Service Agreement (MCS section 1602.5)”) should be included when considering contribution of Inbound Letter Post, as explained on page 9 of the United States Postal Service FY 2019 Annual Compliance Report (ACR).⁴

For clarity, this response will focus on the individual components of the entirety of revenue flows related to Inbound Letter Post, as set forth above. The phrase “negotiated rates” will be used to refer to revenue flows related to Inbound Letter Post

³ FY 2019 ACR at 7; Docket No. ACR2018, Annual Compliance Determination Report, Fiscal Year 2018, April 12, 2019, at 81-82 (FY 2018 ACD).

⁴ FY 2019 ACR, at 9.

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pursuant to Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (MCS section 1602.3).

Three factors caused contribution to decrease for the entirety of revenue flows related to Inbound Letter Post: 1) changes in cost by shape, 2) reporting changes for UPU rates, negotiated rates, as well as PRIME mail flows, and 3) the change in the exchange rate.

Table 1 on the next page provides the percent change for revenue, volume, cost, and contribution, from FY18 to FY19 for the entirety of Inbound Letter Post as defined on page 9 of the FY 2019 ACR. As would be expected, Packets changes predominate.

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Table 1

	<u>Revenue</u>			
	UPU Rates	Negotiated Rates	PRIME	Registered
Letters/Flats	-8.2%	-100.0%	0.0%	
Packets	53.5%	-96.4%	280.5%	35.6%
Total	41.7%	-96.5%	280.5%	35.6%

	<u>Volume</u>			
	UPU Rates	Negotiated Rates	PRIME	Registered
Letters/Flats	-2.0%	-100.0%	0.0%	0.0%
Packets	38.0%	-98.4%	198.5%	17.7%
Total	26.2%	-98.5%	198.5%	17.7%

	<u>Cost</u>			
	UPU Rates	Negotiated Rates	PRIME	Registered
Letters/Flats	1.4%	-100.0%	0.0%	0.0%
Packets	62.0%	-97.3%	245.5%	44.2%
Total	53.1%	-97.4%	245.5%	44.2%

	<u>Contribution</u>			
	UPU Rates	Negotiated Rates	PRIME	Registered
Letters/Flats	-100.8%	-100.0%	0.0%	0.0%
Packets	-97.3%	-94.3%	286.5%	-457.7%
Total	-117.5%	-94.4%	286.5%	-457.7%

Although not a one-to-one relationship, the change in costs reflects the increase in Packets volume. Increases in City Delivery In-Office, Vehicle Service Drivers and Domestic Transportation costs contributed to the increase in Letters/Flats and Packets costs. Packets costs also increased for Rural Carriers.

The second impact highlights the importance of recognizing that Inbound Letter Post consists of more than the Inbound Letter Post product in section 1130 of the MCS. The volume section of Table 1 shows that negotiated rates volume nearly disappeared

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and UPU rates and PRIME volume increased. This reflects Foreign Postal Operators (FPOs) shifting their mailing profile from one year to the next. For instance, when an FPO changes from sending Inbound Letter Post pursuant to a negotiated rates agreement instead of pursuant to a PRIME agreement, ICRA reporting changes. When reporting the FPO sending its Inbound Letter Post under a negotiated rates agreement, the ICRA reports both the terminal dues and scanning revenue under the agreement's docket number. When reporting the FPO sending Inbound Letter Post under a PRIME agreement, the terminal dues revenue is reported under the Inbound Letter Post product in section 1130 of the MCS and the bonus revenue is reported under the applicable PRIME agreement product. If reporting changes for revenue, volume, cost and contribution are not recognized, further analyses and conclusions can be distorted.

The third factor that caused contribution for the entirety of Inbound Letter Post to decrease was the change in the SDR : US dollar exchange rate. The exchange rate resulted in roughly a 3 percent decrease in inbound US dollar revenue.

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4. Please explain the decrease in cost coverage for Inbound Letter Post from 83.8 percent in FY 2018 to approximately 78.5 percent in FY 2019.⁵

RESPONSE:

Cost coverage is essentially contribution represented as a percent ratio, and decrease in contribution was the subject of Question 3. Thus, the response to Question 3 of this Information Request explaining the change in contribution also applies to the change in the cost coverage for the entirety of Inbound Letter Post from FY 2018 to FY2019.

⁵ FY 2019 ACR at 7; FY 2018 ACD at 81.

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5. Please refer to Library Reference USPS-FY19-NP30, December 27, 2019, files "NONPUBLIC UPU QS Link FINAL2018.pdf" and "NONPUBLIC UPU QS Link to OCT2019.pdf," and Docket No. ACR2018, Library Reference USPS-FY18-NP30, December 28, 2018, files "UPU QS Link Perf 2017_redacted.pdf" and "UPU QS Link Perf 2018 to Oct_Redacted.pdf." Please explain the decline in Inbound Letter Post service performance from FY 2018 to FY 2019.⁶

RESPONSE:

As explained in response to Question 6 of this Information Request, the Postal Service was not able to fully pursue its service performance improvement plans during FY 2019 due to the need to focus on other urgent Postal Service international operational priorities, which hindered the product's service performance. In addition, the contributing factor discussed in Question 7 of this Information Request continued to affect this product. Nevertheless, the Postal Service did take steps to address this product's service performance: as can be seen in the month to month performance reports, service performance results increased in June and July after a series of meetings involving International Service Center (ISC) and Area leadership. Continuing this focus should result in improved performance in FY 2020.

In addition, the Postal Service notes that certain of the sources of data for the product's service performance changed from 2018 to 2019, though it nonetheless

⁶ Library Reference USPS-FY19-29, December 27, 2019, file "FY19-29 Service Performance Report.pdf," at 4; Docket No ACR2018, Library Reference USPS-FY18-29, December 28, 2018, file "FY18-29 Service Performance Report.pdf," at 4 (FY 2018 Service Performance Report). See Library Reference USPS-FY19-NP30, December 27, 2019, files "NONPUBLIC UPU QS Link FINAL2018.pdf," and "NONPUBLIC UPU QS Link to OCT2019.pdf," Docket No. ACR2018, Library Reference USPS-FY18-NP30, December 28, 2018, files "UPU QS Link Perf 2017_redacted.pdf" and "UPU QS Link Perf 2018 to Oct_Redacted.pdf."

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acknowledges a decline in performance that the Postal Service is committed to reversing. In particular, and as previously indicated in the quarterly reports filed with the Commission, in FY 2019, the Postal Service began using actual census data of inbound Single-Piece First-Class Mail International parcels (i.e., packets) to measure performance of inbound parcels. Prior to FY 2019, performance of domestic Single-Piece First-Class Mail parcels was instead used as a proxy. Also, prior to CY 2019, the Postal Service had used IPC (via the Universal Postal Union (UPU)) as the third-party source for QLMS data; beginning in CY 2019, the source became the GMS Star system from the UPU itself.

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6. In Docket No, ACR2018, the Postal Service identified projects and initiatives it was taking at International Service Centers to address the declining service performance of Inbound Letter Post, including the "Terminal Dues Score Improvement" Lean Six Sigma Black Belt Project.⁷ Please explain why these projects and initiatives did not improve service performance for Inbound Letter Post in FY 2019 and whether the Postal Service plans to continue them.

RESPONSE:

The "Terminal Dues Score Improvement" Lean Six Sigma Black Belt Project, along with other service improvement projects, was on hold for much of FY 2019 as management resources were focused on preparing the Postal Service for the withdrawal of the United States as a member country of the Universal Postal Union (UPU), which was announced in October 2018, in order to ensure operational continuity. Now that a satisfactory resolution within the UPU was achieved in late September 2019 that will correct the economic distortions caused by the prior terminal dues rates regime, and the letter of withdrawal was rescinded, resources focused on these operational continuity matters could be reassigned to service improvement projects such as this one. The Postal Service does plan to continue the identified projects and initiatives in FY 2020.

⁷ FY 2018 Service Performance Report at 8; Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 3, January 28, 2019, questions 16.a and 16.b.

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7. Please see Attachment, filed under seal.

RESPONSE:

Please see the response provided under seal as part of the Preface to USPS-FY19-NP33.

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8. In the FY 2018 ACR, the Postal Service stated that the increase in the payment for Inbound Registered Mail services component of the International Ancillary Services product (Inbound Registered Mail), from 1.1 Special Drawing Rights (SDR) in Calendar Year (CY) 2018 to 1.2 SDR in CY 2019, should help improve cost coverage.⁸ In the FY 2019 ACR, the Postal Service notes that the payment per item for Inbound Registered Mail is scheduled to increase to 1.3 SDR in CY 2020 and to 1.4 SDR in CY 2021, "which should help to improve cost coverage." FY 2019 ACR at 35. Please explain why the Postal Service anticipates that the increase in the payment in CY 2020 should help improve cost coverage given that the CY 2019 increase did not improve the cost coverage for Inbound Registered Mail in FY 2019.

RESPONSE:

Any increase in revenue helps to improve cost coverage. Thus, the Postal Service anticipates that the increase in the payment per item for Inbound Registered Mail in CY2020 should help improve cost coverage for Inbound International Registered Mail. However, if costs increase more than revenue, the improvement to cost coverage from increased revenue is hidden. If the percentage increase in costs is greater than the percentage increase in revenue, cost coverage is negatively affected; but, cost coverage would have been worse without the increase in revenue.

⁸ Docket No. ACR2018, United States Postal Service Fiscal Year 2018 Annual Compliance Report, December 28, 2018, at 43 (FY 2018 ACR).

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9. In the FY 2019 ACR, the Postal Service states that it “participates in the voluntary supplementary remuneration for inbound registered items.” FY 2019 ACR at 35. The Postal Services further claims that this participation “furnishes additional revenue for inbound registered items.” *Id.*
- a. Please confirm that the amount of voluntary supplementary remuneration referred to above is included in the revenue reported for Inbound Registered Mail.
 - i. If not confirmed, please explain where this revenue is reported.
 - ii. If confirmed, please specify the amount of voluntary supplementary remuneration that the Postal Service received in FY 2019 for the Inbound Registered Mail and the number of items for which the Postal Service received the voluntary supplementary remuneration in FY 2019.
 - b. Please provide delivery and scanning performance results that determined the amount of supplementary remuneration referenced on page 35 of the FY 2019 ACR.

RESPONSE:

- a. Confirmed. The specific values requested are provided under seal as part of the Preface to USPS-FY19-NP33.
- b. The material requested is provided under seal as part of the Preface to USPS-FY19-NP33.

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- 10.** The Postal Service asserts that “in FY 2019, more barcode information was used to assign costs to products and services, which resulted in an increase in costs distributed to Inbound Registered Mail.” *Id.*
- a. Please explain how the Postal Service used barcode information to assign costs and why this information increased costs for Inbound Registered Mail.
 - b. Please confirm that the use of enhanced barcode information was the sole reason for the increase in the cost of Inbound Registered Mail between FY 2018 and FY 2019. If not confirmed, please identify all other factors contributing to the cost increase and explain how these additional factors increased Inbound Registered Mail costs.

RESPONSE:

- a. Delivery Operations currently uses scans of barcodes to help instruct carriers on when to obtain a signature, no longer relying only on human-readable markings. This includes barcodes on inbound pieces that require a signature, including Inbound Registered. Beginning in FY19, and consistent with these operational procedures, Carrier Cost Systems (CCS) also uses scans of barcodes to supplement the identification by data collectors of the Inbound Registered service, which has led to increases in shares of accountable costs. Prior to using barcode information to assign costs, data collectors might have not recognized certain Inbound International Registered items as registered and requiring a signature. Instead, they recorded them only as Inbound Letter Post items. Now that barcode information is being used to assign costs, a greater percentage of Inbound International Registered items are being recorded as

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Inbound International Registered items. This results in an increase in costs for the Inbound International Registered product.

- b. Not confirmed. Increases in Cost Segment 16 Miscellaneous Postal Supplies and Services, Cost Segment 20 International Indemnities, and the costs associated with indirect costs (piggybacks) that are dependent on the direct cost components impacted by the use of the barcode contributed to the total cost increase. Miscellaneous Postal Supplies and Services and International Indemnities reflected changes in the volume variable costs and distribution factors for those components. Piggyback costs, such as Cost Segment 2 Supervision of City Delivery Carriers, vary to the same degree as the City Delivery Carrier direct labor costs being supervised.

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- 11.** Please refer to Library Reference USPS-FY19-NP2, December, 27, 2019, Excel file "Inputs.xls" (Inputs file), tab "Special Services," cells F21 and F37. Please confirm that the volume of Inbound Registered Mail found in cell F21 includes the volume of inbound registered mailpieces under the Inbound Market Dominant Registered Service Agreement 1 (Mail Classification Schedule section 1602.5) (Inbound PRIME Registered), found in cell F37. If confirmed, please explain.

RESPONSE:

Not confirmed.

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- 12.** Please identify the volume variable cost components for Inbound PRIME Registered and provide volume variable costs for Inbound PRIME Registered mail. If the Postal Service is not able to provide separate volume variable costs for Inbound PRIME Registered Mail from volume variable costs for Inbound Registered Mail, please explain.

RESPONSE:

Volume variable costs for Inbound PRIME Registered mail cannot be separated from the volume variable costs for Inbound Registered mail. As explained on the 01_Narrative tab of Inbound PRIME Incremental_Registered_62816.xls that was filed under seal in R2016-6:

By joining PRIME Registered, the Postal Service is eligible to receive additional revenue when it achieves certain scanning thresholds for scanning that is already being done. Although the UPU Registered Surcharge and the PRIME Registered bonus are separate revenues, it is not possible to isolate the signature cost and the scanning cost of an Inbound Registered piece because the two activities happen at the same time. Thus, the only cost reported in this model is the PRIME Registered portion of the PRIME membership fee.⁹

⁹ See financial workpapers filed under seal with Request of United States Postal Service to Add Inbound Market Dominant Registered Service Agreement to the Market Dominant Product List, Notice of Type 2 Rate Adjustment, and Application for Non-Public Treatment, Docket No. R2016-6, July 13, 2016.

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- 13.** Please refer to Library Reference USPS-FY19-NP2, December 27, 2019, Excel file "Reports (Unified).xls," tab "ICRA Database," cells AS2502 and BC2502. Please refer also to the Inputs file, tab "Special Services," cells E7 and E16. Please reconcile the settlement costs of Market Dominant Outbound International Registered Mail and Competitive Outbound International Registered Mail found in these cells.

RESPONSE:

The amounts shown in USPS-FY19-NP2, December 27, 2019, Excel file "Reports (Unified).xls," tab "ICRA Database," cells AS2502 and BC2502 have been inactive since FY 2010. The comment in cell BC2502 refers to the response filed on February 16, 2010, to Docket No. ACR 2009, Chairman's Information Request No. 4, Question 13 and notes the amount was not used in the old "Booked" version of the ICRA.